

Long Term Financial Overview

2019 and Beyond

Presented to: Committee of the Whole

January 8, 2019

Presentation Agenda

- 2019 Budget Overview
- Infrastructure and Infrastructure Deficit
- Debt, Reserve Funds & Prudent Investor Update
- BMA Study 2018 - Taxation and Affordability
- Economic Environment
- Financial Projections 2020-2024

2019 BUDGET OVERVIEW

2019 City Manager Budget Directions

- City Departments - 0% increase over 2018 (excluding wage increases)
- Cost containment
- Expansions reviewed and minimized
- Identify reductions & increased revenue opportunities
- Maintain current level of capital out of revenue

2019 Budget Key Drivers	\$ Municipal Tax Levy Increase (\$000s)	% Change in Total Municipal Tax Levy	Comments
Base Increase	\$ 4,354.7	2.29%	Mainly wages and increases to outside boards
Decreased Provincial Grant	\$935.2	0.49%	Ontario Municipal Partnership Fund (Estimate)
Removal of One-Time Contribution in 2018 from Stabilization RF	\$1,125.0	0.59%	
Solid Waste Diversion to Tax	\$550.0	0.29%	Year 3 of transition from rate supported
Increase to Recycling Contract	\$600.0	0.32%	Transfer from Rate-Supported Operations
Expansions	\$1,823.7	0.96%	Police(\$937.7),EMS(\$422.1),Other(\$463.9)
Increase to Capital out of Revenue	\$1,196.4	0.63%	
Total Before Reductions	\$10,585.0	5.57%	
Increased Provincial Grant Funding	(\$1,160.4)	(0.61%)	Superior North EMS and Long Term Care and Senior Services
Increased Other Revenue	(\$1,222.1)	(0.64%)	Corporate revenues & User fees
Significant Expenditure Reductions	(\$2,027.1)	(1.07%)	
Municipal Tax Levy Increase Before Growth	\$ 6,175.4	3.25%	
Taxable Growth	(\$ 584.0)	(0.30%)	
Total Municipal Tax Levy Increase Net of Growth	\$ 5,591.4	2.95%	5

Tax Supported Surplus (Deficit) History

Year	\$ variance	% variance (net Tax supported budget)
2012	(\$1.3M) Unfavourable	0.6%
2013	(\$6.8M) Unfavourable	3.2%
2014	(\$3.6M) Unfavourable	1.7%
2015	\$1.0M Favourable	0.4%
2016	\$2.7M Favourable	1.2%
2017	\$5.6M Favourable	2.3%
2018	\$3.6M Favourable (Projected)	1.4%

Cost Containment/Budget Reductions (Tax Supported)

2012 - \$1.3 million

2013 - \$1.4 million

2014 - \$1.7 million

2015 - \$0.5 million

2016 - \$3.0 million

2017 - \$2.8 million

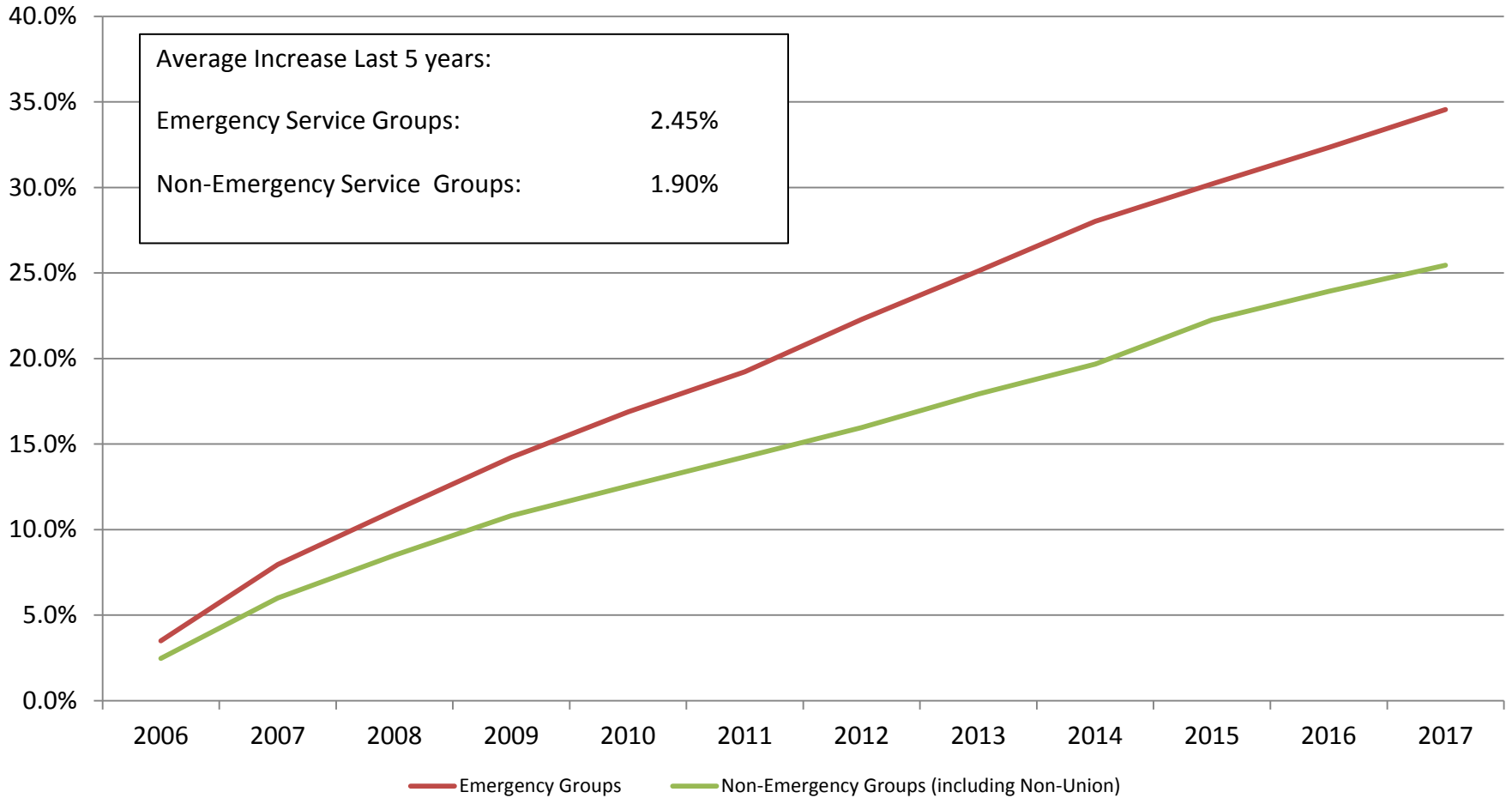
2018 - \$1.5 million

2019 - \$2.0 million (Proposed)



Total \$14.2 million

Cumulative Wage Increases Emergency vs Non Emergency Services



City of Thunder Bay

Municipal Tax Levy % Change

YEAR	% CHANGE	% Net Growth	% CHANGE
	Before Growth		Net of Growth
2010	2.60%	0.68%	1.92%
2011	2.40%	0.41%	1.99%
2012	3.91%	0.70%	3.21%
2013	2.60%	0.72%	1.88%
2014	3.02%	1.33%	1.69%
2015	3.83%	0.65%	3.18%
2016	4.04%	1.94%	2.10%
2017	3.59%	0.46%	3.13%
2018	3.13%	0.71%	2.42%
2019*	3.25%	0.30%	2.95%
10 Year Average	3.24%	0.79%	2.45%

* Proposed 2019 Municipal Tax Levy Increase

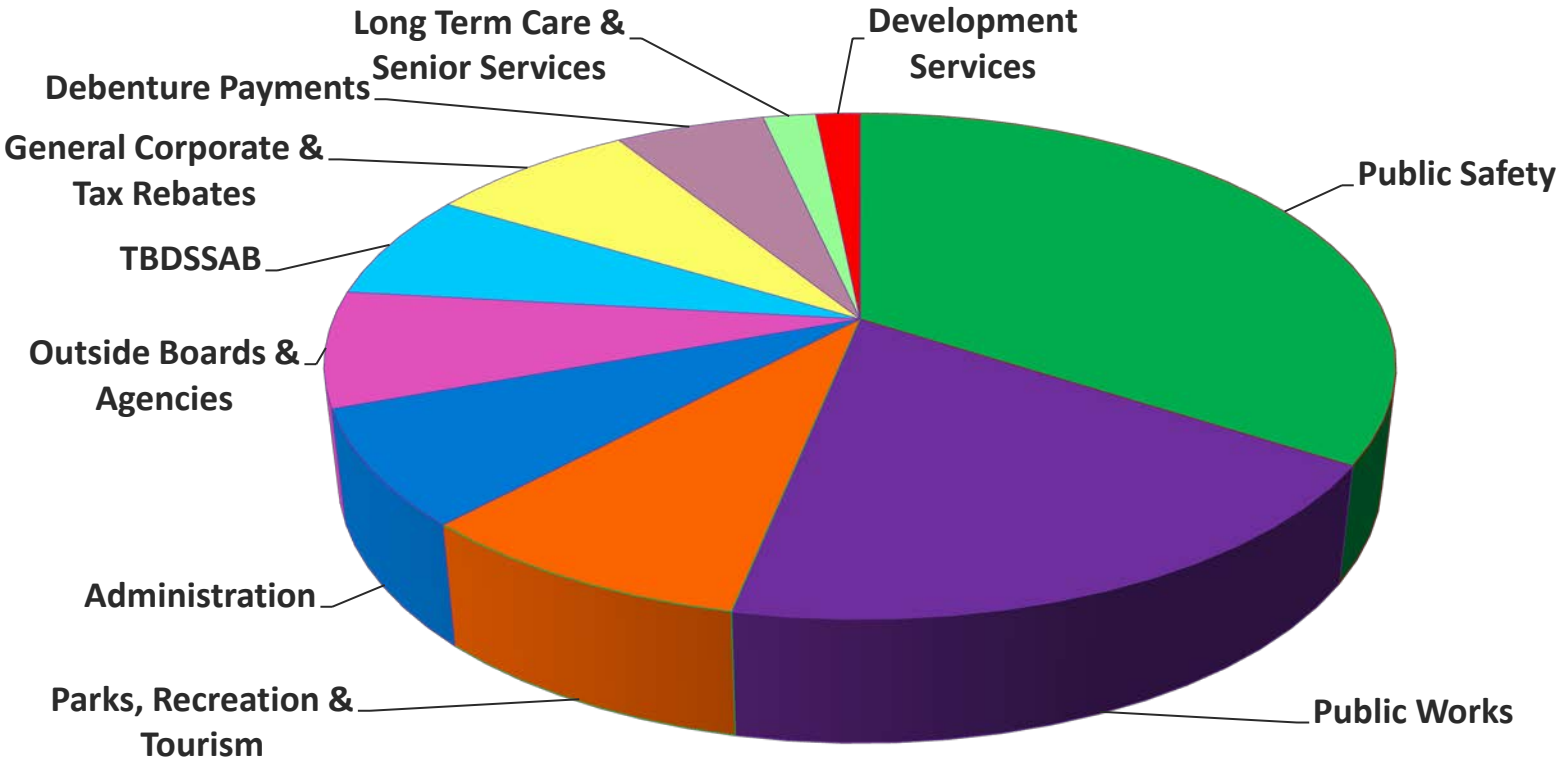
2019 Proposed Budget

What do my municipal taxes pay for?

	\$ Annual	
Public Safety (Police, Fire, EMS)	341	Public Safety and Public Works is 53% of total
Public Works (ex. Roads, Transit, Waste Collection, Facilities, Fleet)	191	
Parks, Recreation, Tourism	88	
Administration (including City Council)	74	
Outside Boards & Agencies (excluding Police, DSSAB)	74	
Social Services (DSSAB)	68	
General Corporate	61	Per \$1,000 of municipal tax levy
Debenture payments (Capital Projects)	54	
Long Term Care and Senior Services	19	
Development Services (Planning and Building)	16	
Legislated / Tax Rebate Programs	14	
TOTAL CITY SERVICES	\$1,000	

2019 Proposed Budget

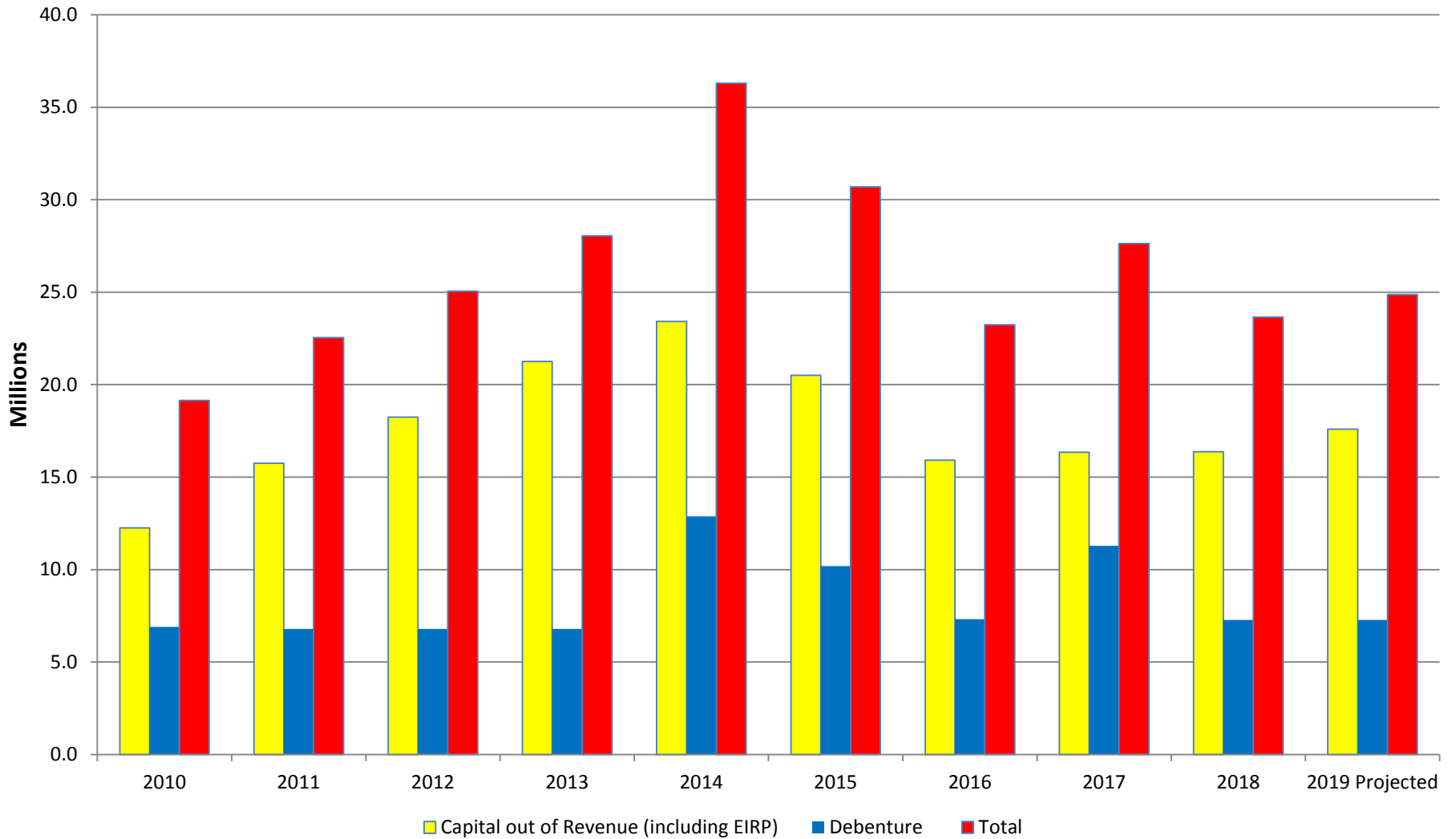
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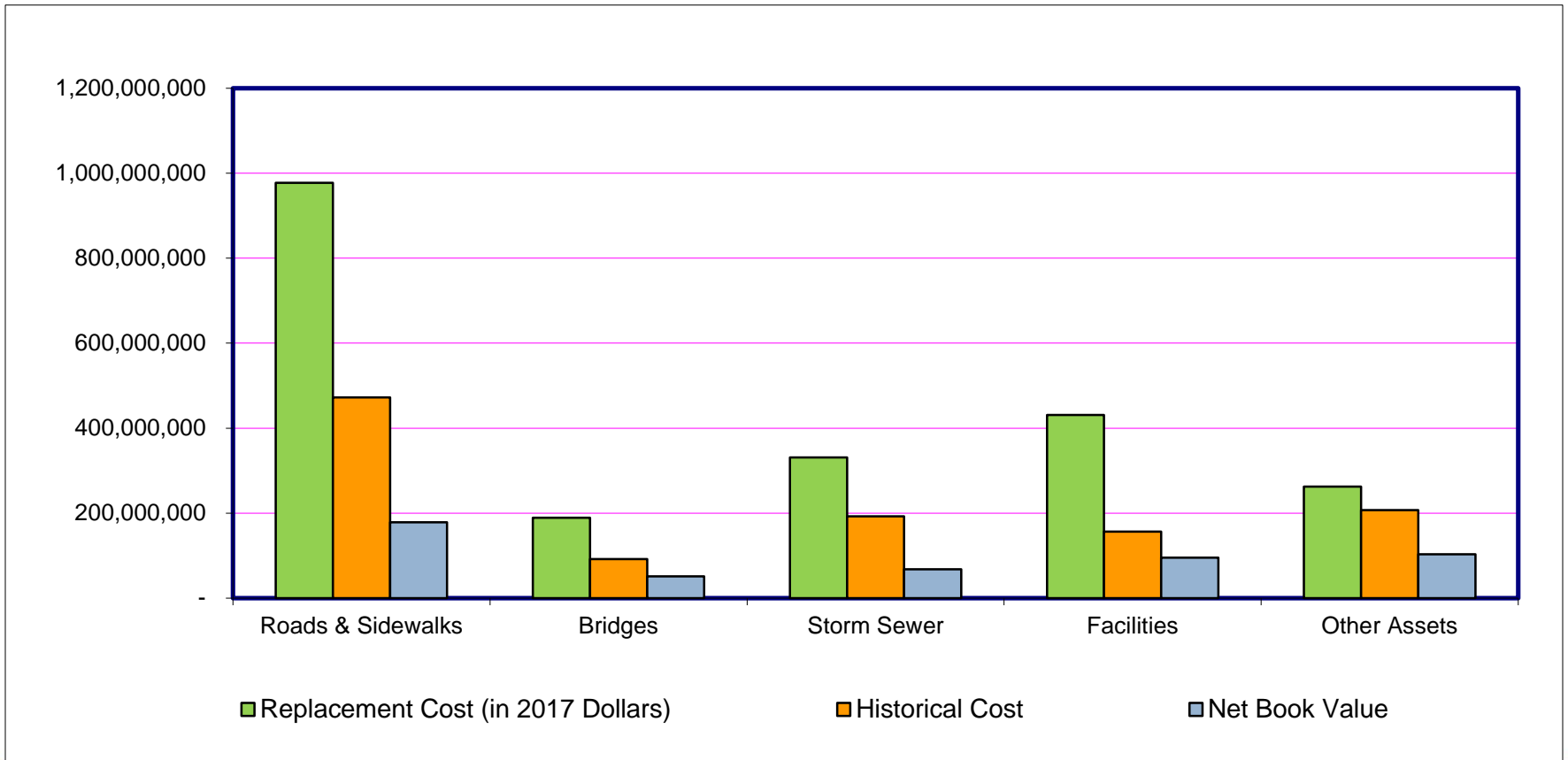
Questions ?

INFRASTRUCTURE AND INFRASTRUCTURE DEFICIT

Tax Supported Capital Capital out of Revenue and Debenture Financing 2010 to 2019 Proposed



Tax Supported Capital Asset Values at December 31, 2017



New Asset Management Plan Regulation

Purpose:

- Greater standardization and consistency
- Provincial tool for allocating grant funding
- Budgeting tool to prioritize capital projects

Next Steps/Regulatory Deadlines:

- Policy & governance structure – July 1, 2019
- Lifecycle costing, levels of service, impact of climate change, municipal plans, growth, risks - 2021/2023
- Public engagement on proposed service levels – July 1, 2023
- Council approved service levels – July 1, 2024
- Financing strategy to address funding shortfall – July 1, 2024

Annual Infrastructure Deficit – 2018 Tax Supported (\$M)

Asset Category	Average Annual Investment Required	Total 2018 Funding (Tax, Gas Tax, OCIF, Reserves, Debt)	2018 Deficit
Roads	\$15.3	\$9.1	\$6.2
Sidewalks	3.3	2.1	1.2
Bridges & Culverts	4.1	4.2	(0.1)
Storm Sewers	4.2	3.3	0.9
Facilities	8.9	2.9	6.0
Fleet	7.2	6.1	1.1
Land Improvements	4.7	2.0	2.7
Machinery & Equipment	6.2	4.2	2.0
Total	\$53.9	\$33.9	\$20.0

- 2017 annual infrastructure deficit was \$23.9 million
- The infrastructure deficit currently only incorporates renewal of existing assets
- Does not include inflationary increases

Strategy to Eliminate Tax Supported Infrastructure Deficit

Projected to be eliminated in 16 years by:

- All Federal and Provincial Gas Tax and OCIF funding dedicated to tax supported capital renewal
- Increases in tax supported capital by 5% annually beginning in 2020
- Maintain tax supported borrowing at current levels until 2022 and then increase by 2.5% per year
- Reinvest significant net savings in debt services costs related to maturity of debt

Annual Infrastructure Deficit – 2018 Rate Supported (\$M)

Asset Category	Average Annual Investment Required	Total 2018 Funding (User Fees, Reserves, Debt)	2018 Deficit
Waterworks	\$11.3	\$7.4	\$3.9
Wastewater	13.0	7.1	5.9
Total	\$24.3	\$14.5	\$9.8

The deficit is projected to be eliminated in 14 years for Waterworks and 16 years for Wastewater by following the financial strategies laid out in the respective Financial Plans.

- 2017 annual infrastructure deficit was \$14.0 million
- The infrastructure deficit currently only incorporates renewal of existing assets

DEBT, RESERVE FUNDS & PRUDENT INVESTOR UPDATE

Debt Management Strategy (Approved in 2014)

Key components of Debt Management Strategy

- Reinvest debt servicing savings into Capital
- Borrowing level adjusted annually for inflation
- Establish debt service target ratios
- Long term financial plans for Wastewater & Solid Waste
- Only consider additional debenture financing for major capital initiatives

Rate Supported Financial Plans Projected Key Financial Indicators

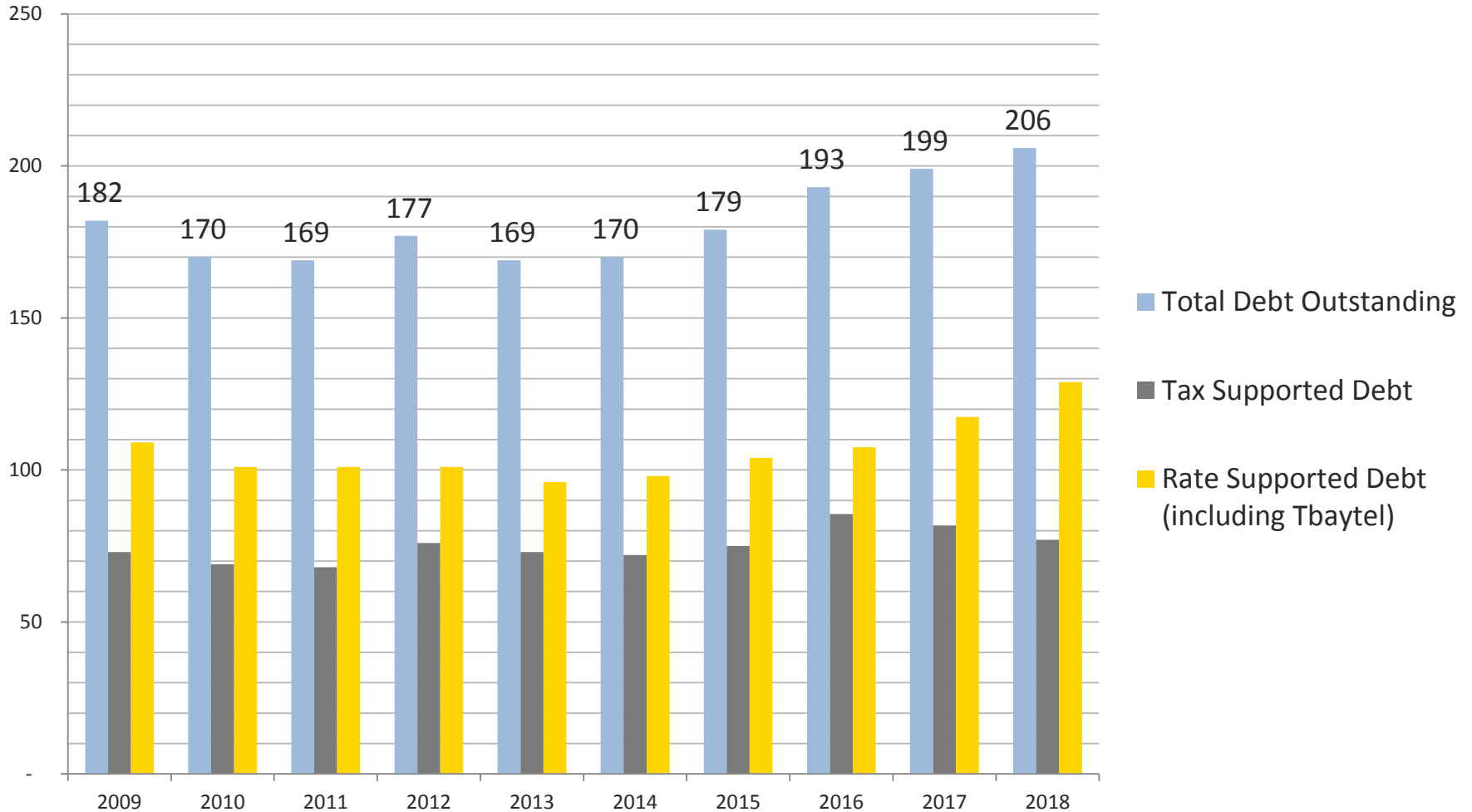
	Water Authority		Wastewater		Solid Waste	
	2017 Actual	Projected End of Plan (2037)	2017 Actual	Projected End of Plan (2034)	2017 Actual	Projected End of Plan (2035)
Reserve Fund Balance	\$2.5 m	\$24.6 m	\$3.2 m	\$25.0 m	\$0	\$3.0 m
Debt Balance	\$67.0 m	\$17.9 m	\$34.8 m	\$20.0 m	\$0.7 m	\$1.6 m
Debt to Reserve Ratio	26.8	0.73	10.9	0.80	na	0.53

Debt Service Ratios

<u>Debt Service Ratio</u>	<u>2015 Actual</u>	<u>2016 Actual</u>	<u>2017 Actual</u>	<u>Maximum Limit (Note 1)</u>
	%	%	%	%
Overall	5.6	5.7	5.2	10
Tax	4.9	4.9	5.3	7.5
Water	22.6	23.9	25.3	26
Wastewater	21.6	21.3	19.7	30
Solid Waste	16.3	13.8	16.9	16

Note 1: Maximum Limits per Debt Management Strategy

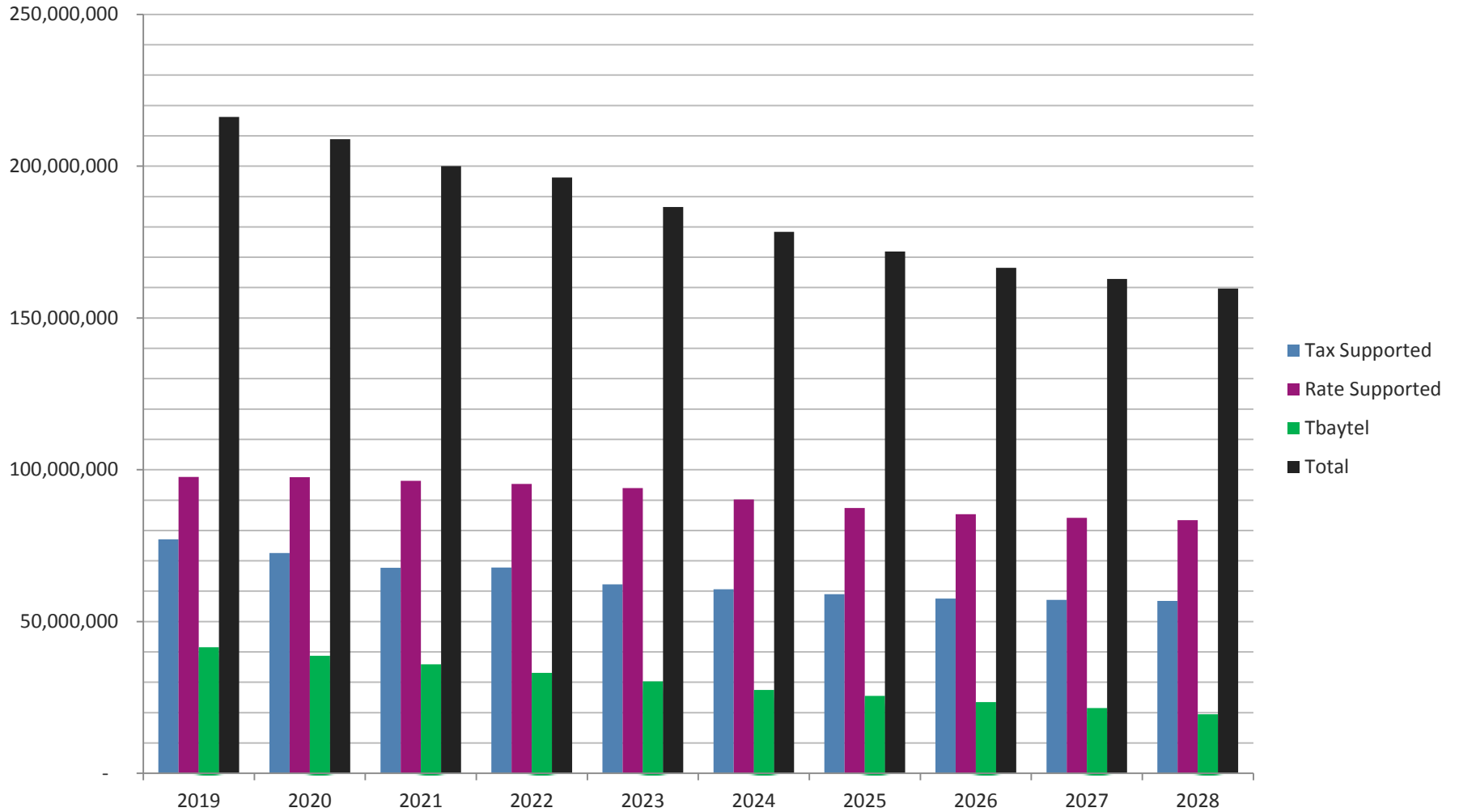
Total Debt Outstanding – 10 Year History \$ millions



Debenture Balance (2016 – 2018)

	Outstanding at December 31, 2016	Outstanding at December 31, 2017	Projected at December 31, 2018
Tax Supported	\$85,345,915	\$81,682,746	\$77,000,000
Wastewater	\$38,230,020	\$34,763,715	\$33,795,000
Waterworks	\$62,745,774	\$66,997,755	\$65,820,000
Solid Waste	-	-	\$365,000
Tbaytel	\$6,400,000	\$15,600,000	\$28,925,000
Total Outstanding Balance	\$192,721,709	\$199,044,216	\$205,905,000

Total Projected Long Term Debt 2019 to 2028



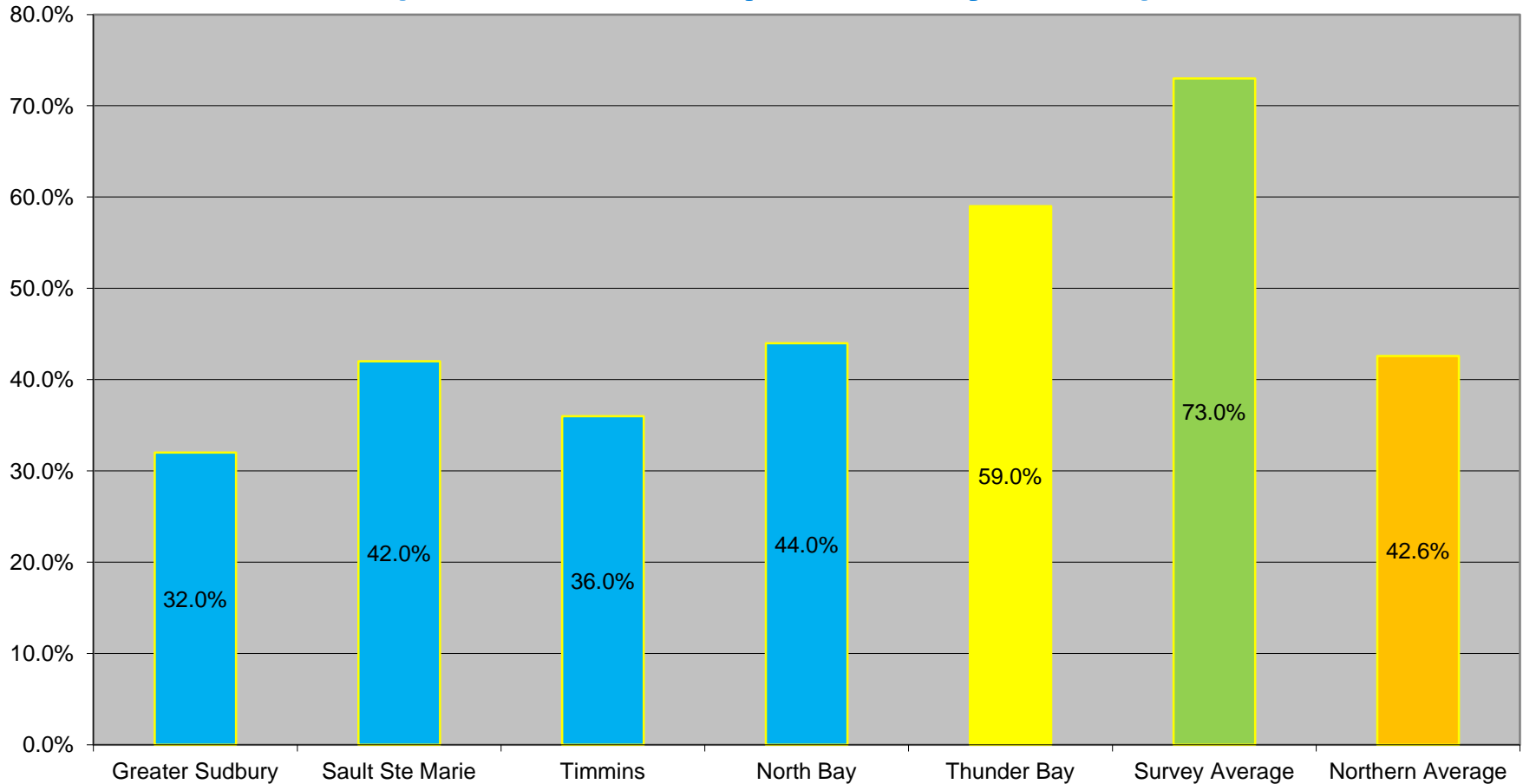
Purpose of Reserve Funds

- Fiscal challenges
- Financing for one-time or short-term requirements
- Leverage government funding
- Internal financing
- Acquisition of capital assets
- Future liabilities
- Ensure adequate cash flows

Debt to Total Discretionary Reserves

	2015	2016	2017
Total Debt (millions)	\$ 179.0	\$ 192.7	\$ 199.0
Total Reserve Funds (millions)	\$ 97.0	\$ 96.9	\$ 108.8
Total Debt to Reserve Ratio	1.8	2.0	1.8
Total Debt to Reserve Ratio - BMA Survey Average	1.0	1.0	1.0
Total Debt to Reserve Ratio - BMA Survey Average - Northern	1.3	1.3	1.2
Tax Supported Debt to Reserve Ratio	0.8	0.9	0.8
Rate Supported Debt to Reserve Ratio	38.6	23.9	18.9

Tax Discretionary Reserves as a % of Taxation (BMA Municipal Study 2018)



Prudent Investor Update

- Broader investment powers – Section 418.1
- Invest in any security in accordance with Prudent Investor Standard
- Required minimum investment balance of \$100m or \$50m in net financial assets
- May invest through a Joint Investment Board with one or more municipalities
- ONE Investment anticipates having a product available in 2019

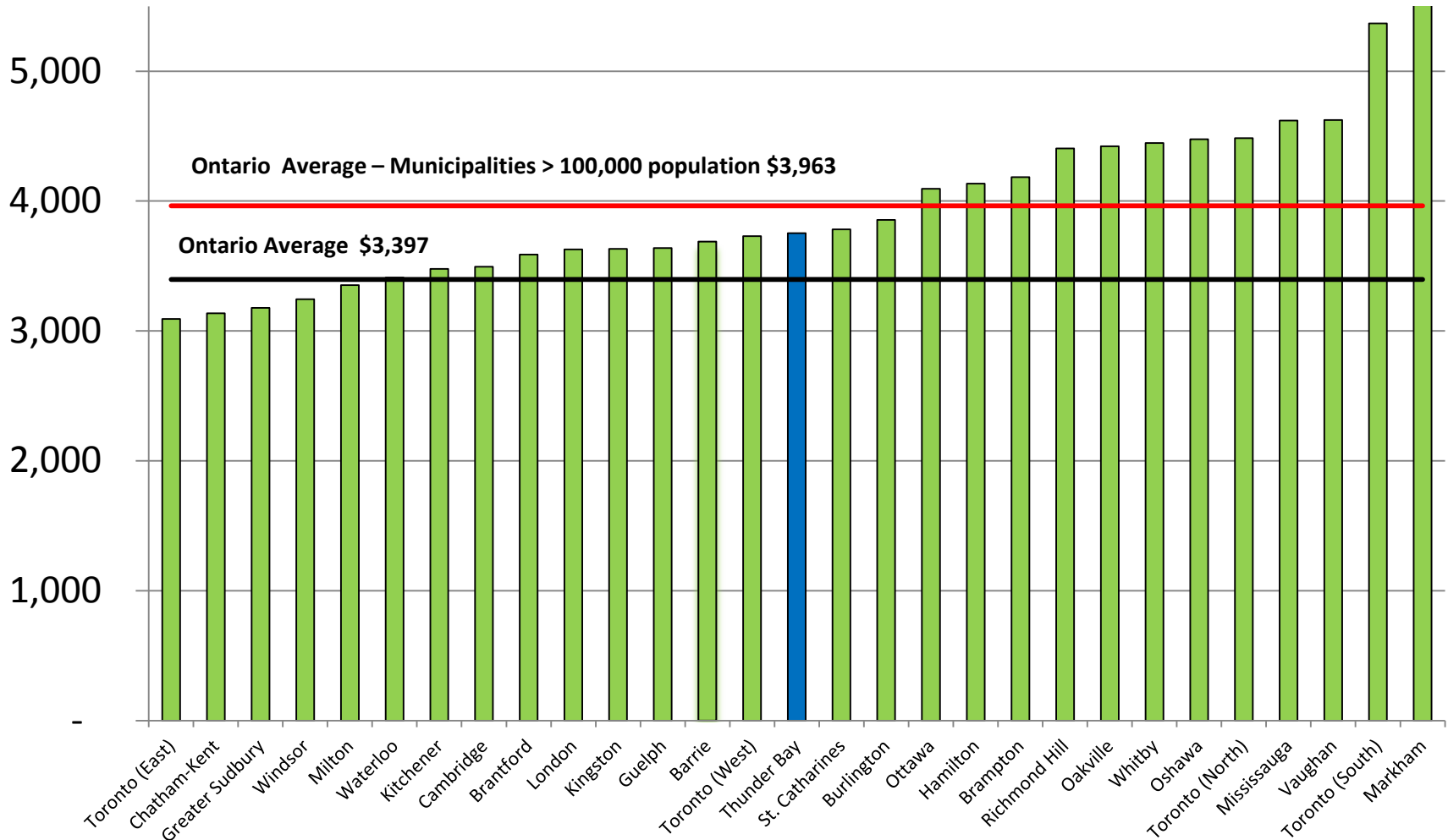
Questions ?

BMA STUDY 2018 – TAXATION AND AFFORDABILITY

Residential - Single Family Detached Bungalow

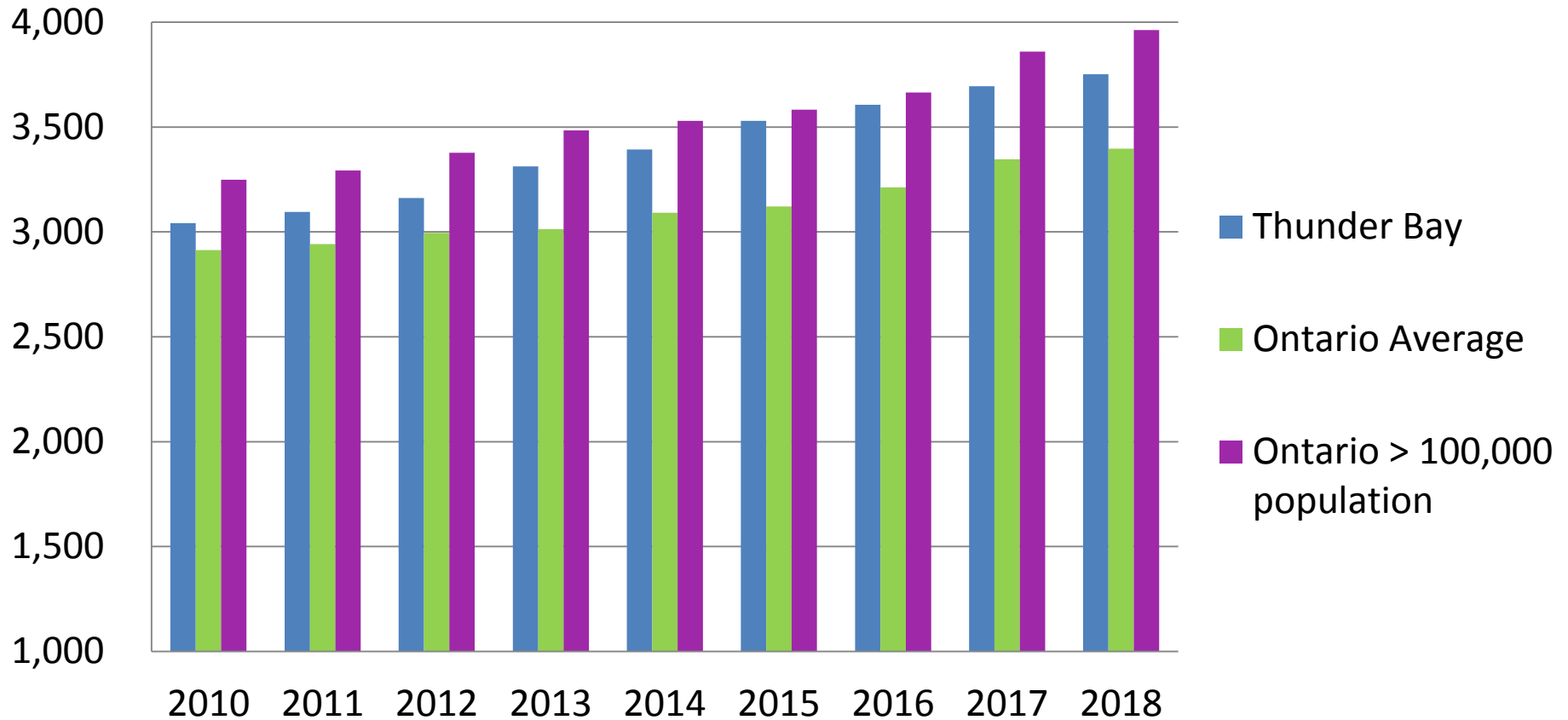
2018 BMA Study - Municipal Tax Per Household

Municipalities > 100,000 population



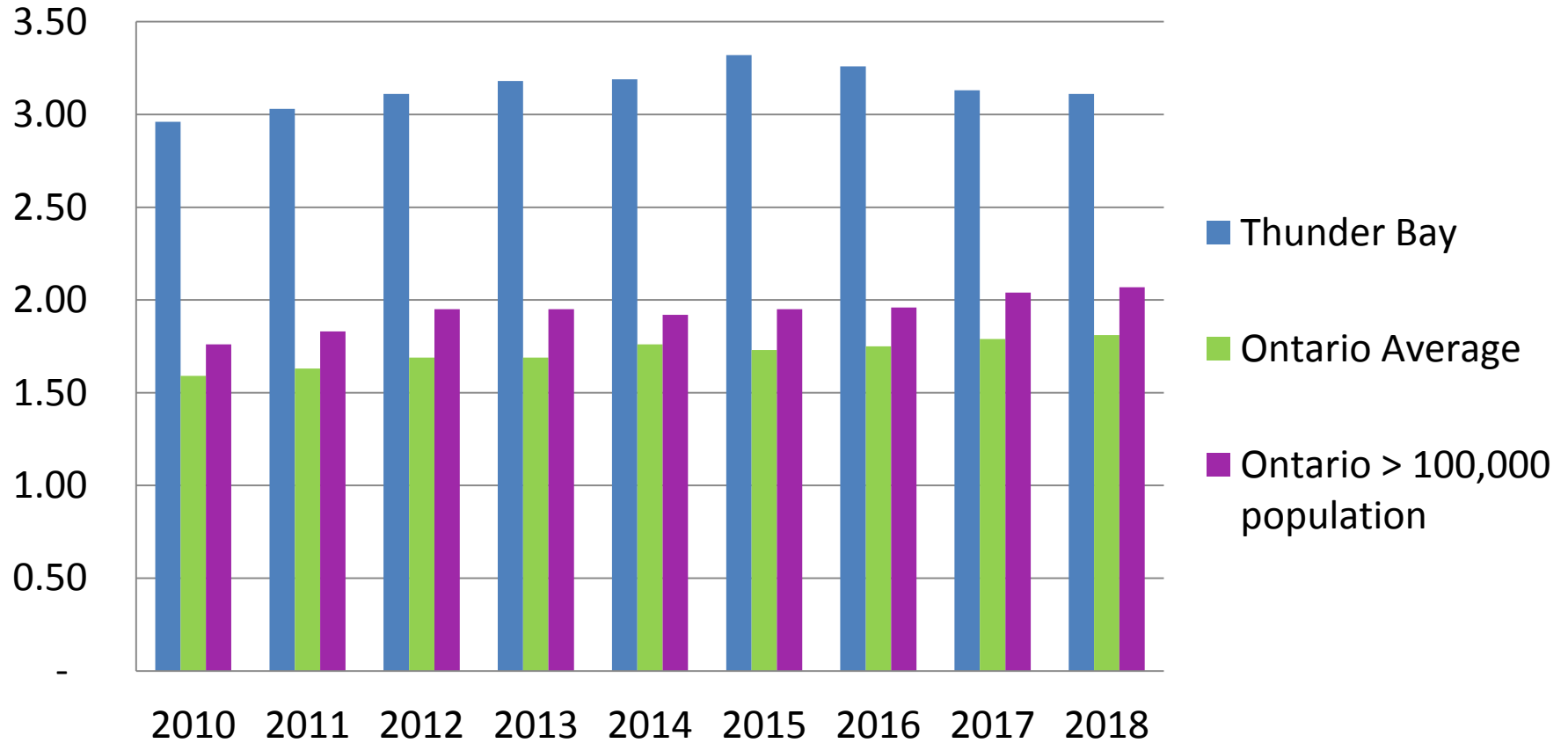
Source: BMA Municipal Study – 2018 (Thunder Bay 3,752)
 Ontario Average includes all Municipalities participating in 2018 BMA Study (108 municipalities)

Residential Single Family Detached Bungalow Municipal Tax Per Household BMA Municipal Study (2010-2018)



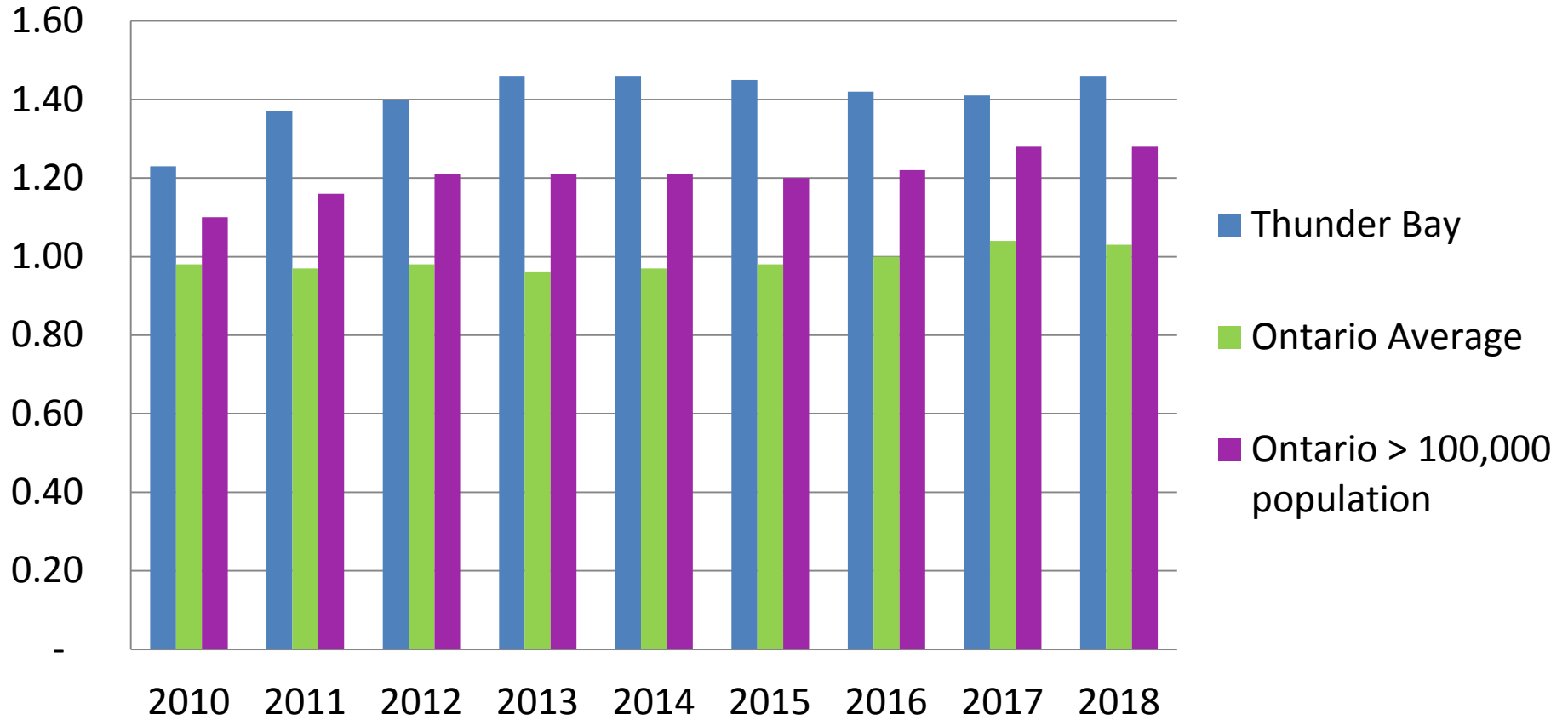
- Detached 3 bedroom single story house with 1.5 bathrooms and a one car garage
- Total area of house of approximately 1,200 sq. ft.
- Lot size of approximately 5,500 sq. ft.
- Weighted Median Value of a dwelling of \$207,544 in Thunder Bay for 2018

Commercial – Office Buildings Municipal Tax Per Square Foot BMA Municipal Study (2010-2018)



Source: BMA Municipal Study - 2018

Industrial-Standard Industrial Municipal Tax Per Square Foot BMA Municipal Study (2010-2018)



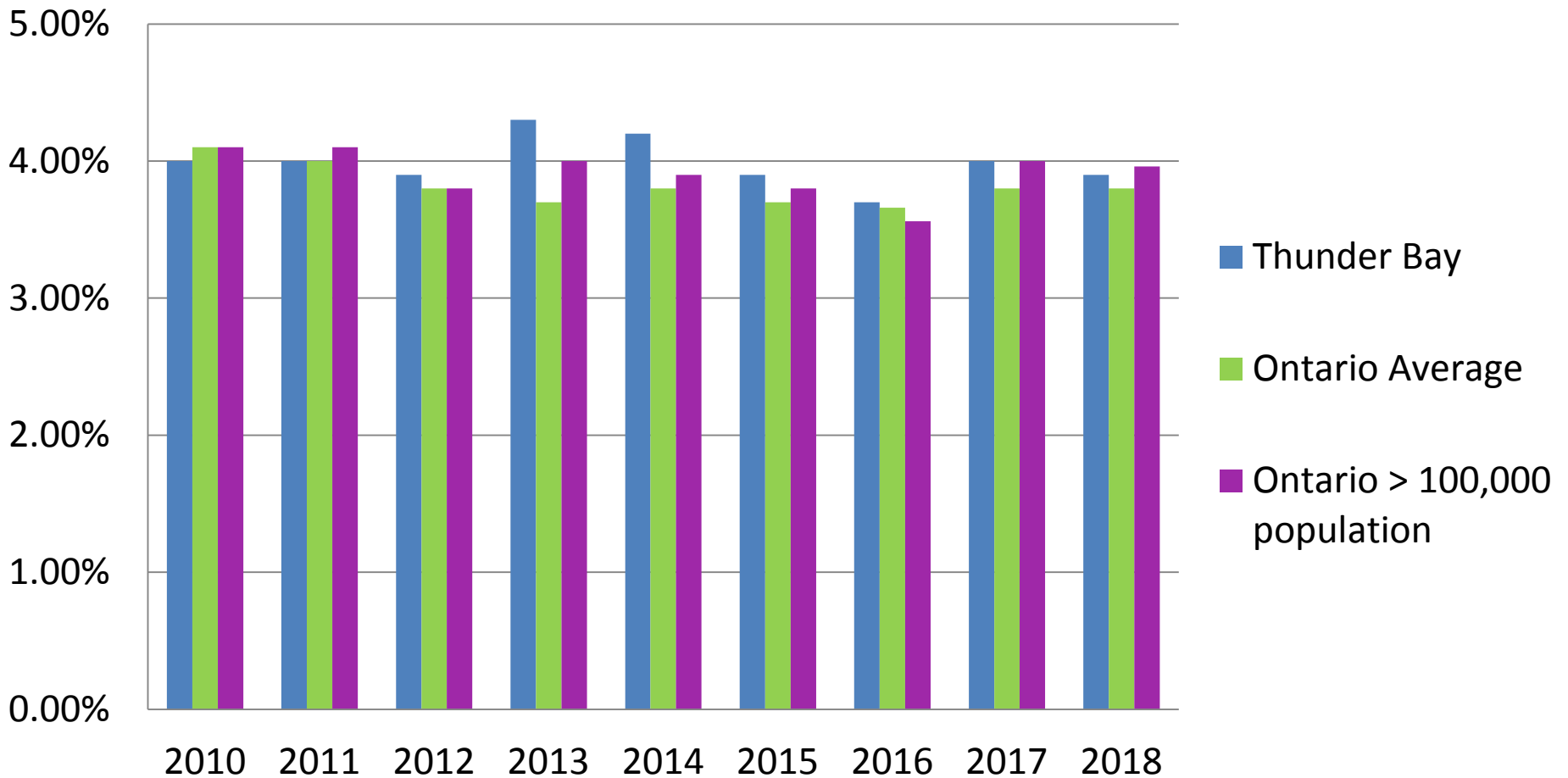
Source: BMA Municipal Study - 2018

Affordability

	2018 Median Value of Dwelling	2018 Estimated Average Household Income	Median Value of Dwelling to Average Household Income
	\$	\$	
Thunder Bay	207,544	87,350	2.4
Ontario Average	340,734	102,194	3.3
Ontario Average > 100,000 population	405,307	105,113	3.9

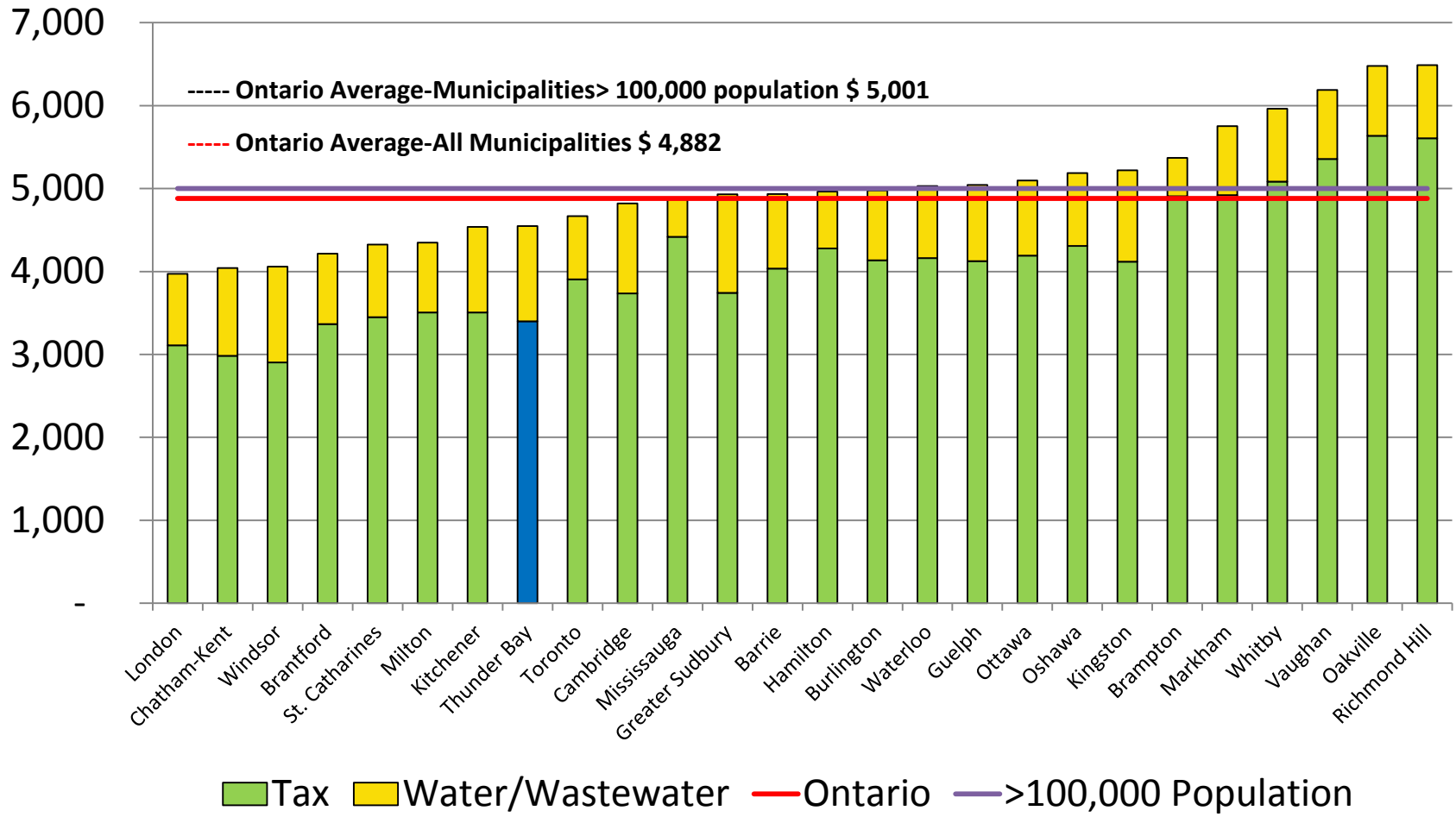
Source: BMA Municipal Study 2018

Property Taxes as % of Income BMA Municipal Study (2010-2018)



- Thunder Bay is 62rd highest out of 108 Ontario municipalities in 2018
- Thunder Bay is 24th highest out of 26 Ontario municipalities in 2018 (>100,000 population)

Average Municipal Tax, Water/Wastewater Burden Per Average Household - 2018 BMA Municipal Study Municipalities > 100,000 population



*2018 BMA Study – Weighted Median Value of Dwelling-Thunder Bay \$207,544
& average annual water consumption of 200 m³*

ECONOMIC ENVIRONMENT

By the Numbers

- Unemployment Rate – 5.3% (Oct 2018) {Canada – 5.9%; Ontario 5.7%}
- Overall Vacancy Rate (apartments) – 4.9% (CMHC –Outlook Fall 2018)
- Major Employers:

Top Public Sector

Thunder Bay Regional Health Sciences Centre	Acute Care Hospital	2,824
Lakehead District School Board	Elementary & Secondary Education	2,200
St. Joseph's Care Group	Complex Care, Rehabilitation, Mental Health & Addiction Services, Long Term Care	2200
Lakehead University	Education	2,100

Top Non-Retail/Industrial/Service Sector

Bombardier Transportation	Mass Transportation Equipment Manufacturing	1,100
Resolute	All Operations	642
Tbaytel	Telecommunications	400

International Students:

- Lakehead University over 1500 international students from more than 60 countries (2018)
- Confederation College over 1100 international students from more than 40 countries (2018)

East-West Power Transmission Tie Line

- The East-West Tie transmission project, a 450-kilometre line that would connect the Lakehead and Wawa transformer stations, appeared to be a go with the December 11, 2017 signing of an agreement between developer NextBridge Infrastructure and general contractor Valard.
- But the \$777-million power transmission line project, has seen a competing construction bid come forward from Hydro One in mid 2018, implying over a \$100 M saving.
- Then-Energy Minister Glenn Thibeault allowed Hydro One to submit the second bid proposal. The matter was referred to the Ontario Energy Board to hear both Nextbridge and Hydro One's bids (late 2018);hearings are now complete(late 2018). An award to construct is expected to be made in early 2019.
- Two years of construction will follow; tower steel and wire will be required for over 1100 towers.

Forecasted Additional Assessment (Growth)

- Delta Hotel
- Hotel – Conversion of Camelot Street Courthouse
- Condo – Fountain Hill (24 units)
- Condo – Former Hillcrest High School – Phase 2 (15units)
- Apartment Building – Oasis Lane (24 units)
- Marostica Subaru Dealership
- Apartment Building – John Street (9 units)
- Bank – Arthur Street
- Condo – Thunder Bay Country Club (101 units)
- Condo – Former Hillcrest High School – Phase 3 (52 units) - 2020
- Apartment Buildings – Leslie Ave (63 and 54 units) – 2020
- Apartment Building – Oasis Lane (24 units) - 2020

City of Thunder Bay Economic Environment

CMHC – Thunder Bay Housing Market (Fall 2018 update)

- Total housing starts were expected to decline in 2018 and rebound in 2019 due to rental apartment starts
- Starts of single-detached homes are expected to trend lower in 2019
- Price growth within the existing home market is expected to improve slightly in 2019 and 2020 but the pace of sales is expected to flatten by 2020
- Upside Risks: ring of fire, stronger forest product manufacturing & reduced business uncertainty
- Downside risks: stronger US dollar, weak global growth, interest rates, further cuts to provincial transfers to municipalities

S & P Global

- Reaffirmed 'AA' stable

FINANCIAL PROJECTIONS 2020 - 2024

Nature of Projections

- Assist in future planning
- Future economic climate a factor
- Actual results will vary from projection – examples from past years
 - Legislative changes
 - Fluctuations in commodity prices
 - Arbitration & wage settlements
 - Funding from Canada and Ontario
 - Expansions required to meet community needs (i.e. emergency services)
 - Growth

Projected Municipal Tax Levy Increase

	Total	Net of Growth
2020	3.83%	3.37%
2021	3.45%	3.01%
2022	3.36%	2.93%
2023	3.24%	2.83%
2024	2.79%	2.39%

Based on estimated annual growth of \$0.9 million

Assumptions – Operating

- No changes in service levels or reductions to complement
- Removal of 2019 proposed one time items
- Inflationary increases for Boards & Agencies and Corporate Expenditures
- Departmental budgets - 0% increases (excluding wage increases)
- OMPF grant expected to remain stable
- No changes in service levels related to Boards
- Debenture payments increase based on previous approved borrowing and projections for future borrowing

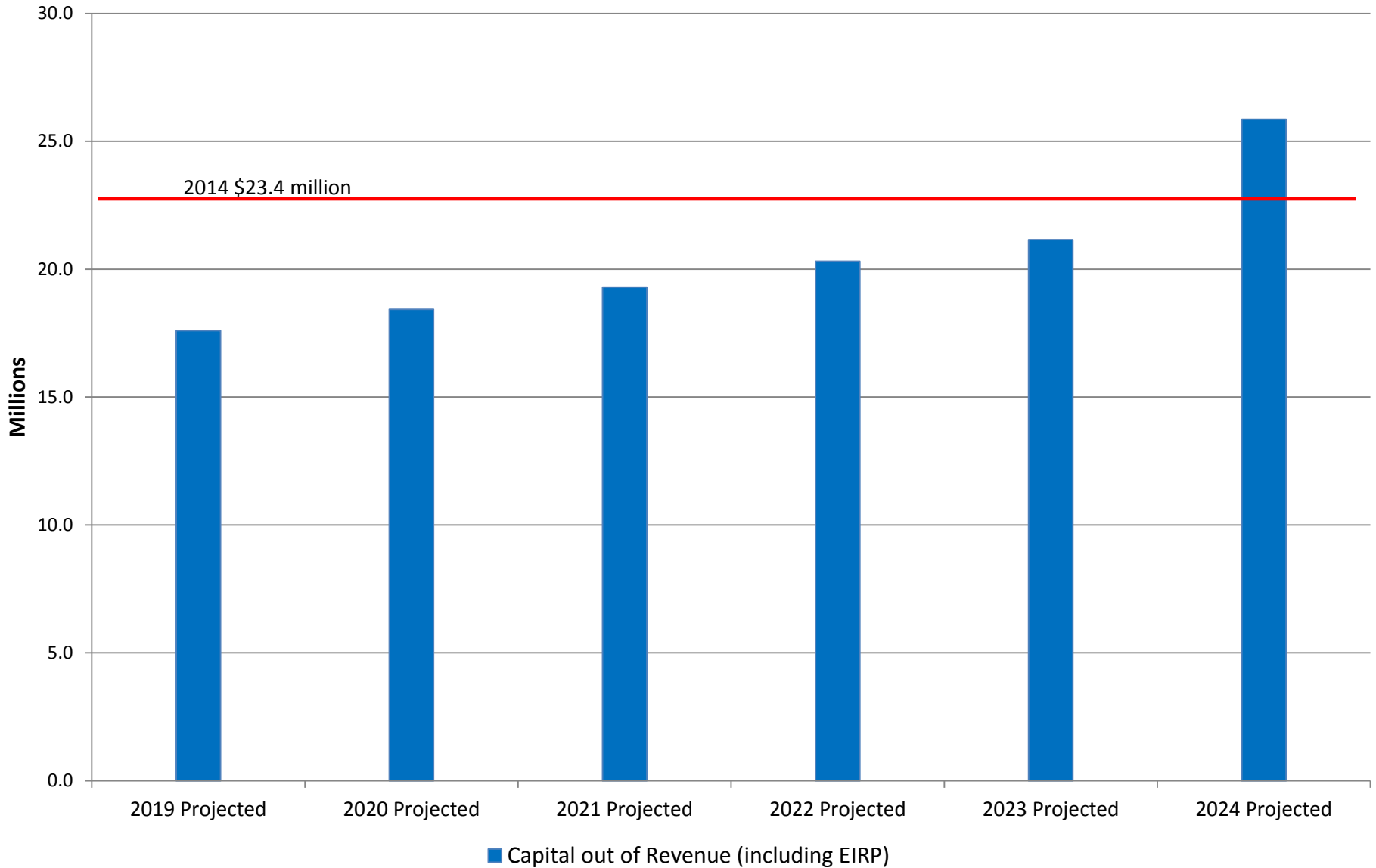
Assumptions – Operating (Cont'd)

- CPP Reform Introduced
- Solid Waste (Waste Diversion into Tax)
- Reserve Fund contributions increased modestly
- Expansion within Police Services for Next Generation 911 Costs

Assumptions – Capital

- Capital out of revenue increased annually by 5% beginning in 2020
- Annual debenture borrowing consistent with 2019 proposed level for 2020 to 2022 of \$7.3 million and thereafter increased annually by 2.5%
- No new special one time tax supported borrowing
- Future debt repayment over 10 years @ 4.25%
- Reinvesting net savings in debt services costs related to maturity of debt into capital

Tax Supported Capital out of Revenue Projected 2019 - 2024



2020 – 2024 Future Directions

- Public Engagement Framework
- Intergovernmental Affairs Committee- Develop and implement strategies to enhance key relationships with the federal and provincial governments
- Appropriate budgets that support and recognize service demand and supply
- Growth Strategy



Questions ?